

# **Community Development Advocates of Detroit**

## **Comments for MSHDA QAP Listening Session**

**Monday, May 18, 2007**

Community Development Advocates of Detroit, commonly known as CDAD, is the trade association of community development corporations (CDC) in the city of Detroit. We have nearly 100 member organizations. Seventy percent of our members are non-profit community development corporations. The remaining affiliate members represent organizations that support community development.

In the near future, the Michigan State Housing Development Authority (MSHDA) will receive a more detailed position paper regarding the next Qualified Allocations Plan (QAP). The Low Income Housing Tax Credit (LIHTC) is a critically important tool for non-profit developers in Detroit, as it is throughout the state. However, there are challenges that exist with the current QAP.

### **Eliminate The Lottery**

The current lottery system, designed to determine which projects are funded, has had a negative impact on non-profit community developers in Detroit. The chance nature of a lottery makes it very difficult to plan ahead for projects and to secure funding. The current lottery system leaves too many elements to chance, making it difficult, if not impossible, for many community development corporations to participate in the process.

The cost associated with the pre-development necessary to apply for tax credits provides a considerable burden for non-profits. Due to the fact that reports have a six-month lifespan, an organization that does not make it through to be funded must re-do all pre-development reports and assessments prior to the next round. These costs can run anywhere from \$30,000 to \$100,000 utilizing critical funding that could be used for other mission-related projects and programs. Funders who support pre-development activities are reluctant to invest in pre-development support of tax credit projects because of the uncertain nature of the outcome for their investment.

The result is that fewer non-profit developers are in a position to submit tax credit projects for consideration. In fact, the ability for CDCs to partner with for-profit developers has also been negatively impacted by the current QAP. Costs are just too great to invest in an uncertain return.

It is our belief that the intent of the Low Income Housing Tax Credit is to make a difference in poor communities across the state. However, based on an analysis conducted by CDAD Board Member Tim Thorland of Southwest Housing Solutions, poorer communities across the state, as well as in Detroit, have suffered a reduction of tax credit investment in recent years. Many CDAD members who serve neighborhoods with a tremendous need can no longer afford to participate in the current system.

### **Extend Pre-development Shelf-life**

As previously mentioned, the current process, which requires a submission of new pre-development reports with each tax credit application has been problematic for community developers. The need to submit these reports with each round is a costly requirement that has ultimately created a scenario where many non-profit organizations have had to opt out of the tax credit application process. Those organizations who continue to participate do so through the expenditure of funding that is becoming increasingly difficult to come by and justify. Funders want to invest in projects that can have an impact on neighborhoods. There is no guarantee this will be the case for tax credit projects. This has resulted in an environment where funders and CDCs question the merit of continuing to apply round after round for tax credits.

If pre-development reports could remain valid for an entire calendar year, that would significantly reduce the use of hard-to-come-by, mission-critical dollars that non-profit developers would have to expend just to apply for LIHTC.

### **Create Merit-based/Need-based Scoring System and Priorities**

The 2005 QAP ultimately included a 45% cap for credits given to any one city. This was obviously directed toward the city of Detroit, which had historically received a greater number of tax credits based on needs within the city. However, Detroit has only received 32% of credits awarded in the last 2 ½ years. It is critical that the state's largest city with one of the highest poverty levels in the country benefit from a program that provides a fair, competitive, merit-based opportunity to receive its fair share of tax credits.

We urge MSHDA to consider a new process that will not leave projects to chance, but rather takes into account the impact these projects can have on neighborhoods. It would be beneficial if MSHDA developed project priorities that are aligned with critical state initiatives, so that CDCs and other developers would have an idea of how to strategically align projects. It would also be beneficial for projects to be judged on their merit and the need in the community.

### **Next Steps**

CDAD would like to have further dialogue with MSHDA and others regarding the new QAP prior to the development of a draft plan. The creation of a roundtable with key stakeholders from across the state should be conducted, so that we can hear from each other, as well as MSHDA. We thank you for the opportunity to share our comments today.